NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

QUARTERLY COMMENTARY ON MACROPRUDENTIAL POLICY

OCTOBER 2014

Contents

Foreword

Financial system stability is essential for a well-functioning economy. It encompasses many areas, ranging from the security of bank deposits and other similar products to the smooth-functioning of the lending market based on the responsible approach of financial institutions and their customers. The purpose of macroprudential policy is to contribute to financial stability, in particular by strengthening the financial sector's resilience during good times, when risks are typically still at an early stage. This purpose also entails preventing the build-up of systemic risks, so as to make the economy less vulnerable in crisis periods.

Macroprudential policy in Slovakia is implemented primarily by Národná banka Slovenska (NBS), with its formal obligation in this regard laid down in Act No 747/2004 Coll. on financial market supervision. In implementing this policy, NBS may use any of several tools (from mitigating a specific risk to increasing capital requirements across the board), and may apply them in different ways (from issuing risk warnings to laying down statutory obligations).[1] The European Central Bank (ECB) has the power to impose further, stricter macroprudential policy settings.

A key element of macroprudential policy implementation is the regular quarterly assessment of developments in the area of financial stability, and any ensuing decision of the NBS Bank Board to apply a specific instrument. The fulfilment of the core objective – the maintenance of financial stability – is assessed in terms of compliance with five intermediate objectives:[2]

1. to mitigate and prevent excessive credit growth and leverage;
2. to mitigate and prevent excessive maturity mismatch and market illiquidity;
3. to limit direct and indirect exposure concentrations;
4. to limit the systemic impact of misaligned incentives with a view to reducing moral hazard;
5. to strengthen the resilience of financial infrastructures.

The first intermediate objective is to prevent excessive credit growth and leverage, which has been generally identified as a key driver of the financial and economic crisis. This is a particularly important objective in Slovakia, owing to the traditional nature of the financial market in this country. Most of the significant trends, as well as risks, in the domestic banking sector are related to the market in lending to households and enterprises. Looking at loans to the domestic economy as a share of total assets, the ratio in Slovakia is one of the highest of any country, with banks earning the bulk of their income from such lending.

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[1] Further details about these instruments can be found on the NBS website, at http://www.nbs.sk/en/financial-market-supervision/macroprudential-policy

[2] The intermediate objectives are set out in line with Recommendation No ESRB/2013/1 of the European Systemic Risk Board on intermediate objectives and instruments of macro-prudential policy (2013/C/170/01).

The second intermediate objective relates to excessive maturity mismatch in the assets and liabilities of bank balance sheets. In other words, the maturity of banks' assets should not differ significantly from the maturity of their funding liabilities. Although the role of banks is to intermediate the funding of long-term assets (loans) with short-term liabilities (deposits), experience has shown that an excessive maturity mismatch between assets and liabilities makes the financial system more vulnerable and contributes to a build-up of economic and financial imbalances.

The third intermediate objective is to limit direct and indirect exposure concentrations. Direct concentration risk typically arises from significant exposures to, for example, households, general government, or certain sectors of the economy. Indirect exposures arise from the interconnectedness of financial and non-financial institutions. Elevated concentration is a long-standing structural feature of the domestic financial sector. This is largely attributable to the structure of the Slovak economy, which is heavily dependent on a small number of sectors, as well as to the concentration of bank's claims on and/or sources of funding from certain customers or groups of customers. Another significant feature of the Slovak banking sector is the high share of domestic government bonds in banks' balance sheets.

The fourth intermediate objective aims to limit the systemic risk arising from misaligned incentives of financial institutions and their customers. The primary aim here is to reduce the risk of moral hazard related to the presence of systemically important financial institutions. Whereas, in respect of the third intermediate objective, concentration risk is monitored for its potential impact on individual banks or the banking sector, in the case of systemically important institutions concentration is monitored owing to the large impact that potential default of such an institution would have on the financial sector and real economy. Moral hazard may also arise in relation to management remuneration at financial institutions or in the terms of cooperation with financial intermediaries.

The fifth intermediate objective is to strengthen the resilience of financial infrastructures. The most important elements of the financial infrastructure in Slovakia are the payment systems (TARGET2, SIPS), the Deposit Protection Fund, and securities settlement systems. Their reliable operation is crucial for the country's financial stability.

The Quarterly Commentary on Macroprudential Policy (QCMP) is structured according to these objectives. Its main part is a situation analysis (based on the indicators in the annex), which is a basis for NBS decision-making. This edition of the QCMP is based mostly on data as at 30 June 2014, although the qualitative assessment also takes account of information available until the submission date of the QCMP.

The document is divided into three parts. The first part contains a brief analysis of the most significant developments related to systemic risk which occurred during the quarter under review, broken down into sub-headings that correspond to the above-mentioned intermediate objectives. The second part focuses on decisions taken in the area of macroprudential policy, including not only decisions of NBS, but also decisions of the ECB. The third part comprises annexes that include: tables showing indicators used to monitor the intermediate objectives, and reference information for decisions on the countercyclical capital buffer rate.

1 Situation analysis by Národná banka Slovenska

This situation analysis is based on data as at 30 June 2014. It serves as a basis and guide for decision-making in the area of macroprudential policy. This analysis is broken down into five sub-headings relating to the intermediate objectives set out in Recommendation ESRB/2013/1.

1.1 Excessive credit growth and leverage

The trend in corporate lending remained different from that in household lending. While the annual growth rate of household loans was very high, the outstanding amount of loans to enterprises remained flat. Therefore, the growth rate in overall private debt (enterprises and households) did not increase. The deviation of the private debt-to-GDP ratio from its long-term trend (the credit-to-GDP gap) remained negative. Thus, from the view of the trends to date, the private debt-to-GDP ratio is not rising excessively. At the same time, the overall financial and business cycle is at low levels in comparison with previous periods: GDP is below its long-term trend, the unemployment rate remains elevated, housing affordability is high, and, as already mentioned, private debt growth is not strong (Chart 3). Nevertheless, significant growth in household lending is increasing the indebtedness of households. This situation in the household loan market carries with it several trends associated with risk accumulation, set against a backdrop of declining interest rates. The principal risks include:

- the large number of new housing loans with a loan-to-value ratio of more than 90%;
- the high proportion of loan refinancings which involve increasing the outstanding principal and therefore further concentrate debt among already indebted households;
- less importance placed on verifying borrowers' income for certain credit products;
- the provision of credit products in which instalments increase over time;
- increasing pressure to extend the maturity of retail loans.

1.2 Excessive maturity mismatch and market illiquidity

Despite the growth in long-term loans (particularly housing loans), no significant maturity mismatch between assets and liabilities has yet emerged. Banks continue to have sufficient primary deposits providing a stable source of funding. In the second quarter, despite falling interest rates, the share of household and corporate deposits in banks' total assets remained at all-time high levels (around 60%).

The situation in the interbank market was calm during the second quarter, and banks had sufficient eligible collateral in the event they needed to obtain liquidity from the central bank. The banking sector remains self-sufficient in liquidity, and vis-à-vis non-residents it is a net provider of liquidity.

1.3 Concentration

In some medium-sized banks, the higher level of concentration risk is reflected in the relatively high amount of their intra-group exposures, which in turn increases risks from the external environment. To mitigate this risk, NBS is gradually reducing the upper limit on any exposure to banking groups that amounts to the equivalent of more than 25% of a bank's own funds; it is being cut from €150 million to €50 million over a horizon of several years. It should also be noted that the upward trend in banks' intra-group liabilities, seen from early 2013, continued in the first quarter of 2014.

Since banks' trading books are generally asset-light, the high share of government bonds on their balance sheets is not significant in terms of market risks. The only risk would arise from a restructuring of Slovak sovereign debt, but at present such an occurrence is highly unlikely. Although the share of domestic government debt in banks' total assets fell in the fourth quarter of 2013, the same did not happen in the first quarter of 2014.

1.4 Moral hazard

Some indicators that are now relatively high by historical standards are the C5 indicator for domestic government bonds and the indicators for liabilities in the financial system. In the case of government bonds, this is because certain banks substantially increased their bond holdings in 2009 and some of them are now gradually reducing these investments. The situation with liabilities stems from Slovakia's entry into the euro area in 2009, which triggered a relatively large outflow of funds previously provided by foreign banks to certain subsidiaries and branches in Slovakia, as well as from the ECB's introduction of non-standard operations in response to the financial crisis. Although the amounts that domestic banks borrowed through such operation were only a small proportion of their total assets, some of the banks did reduce their need to obtain funding from the interbank market. Furthermore, while some banks, from 2010, reported a relatively sharp increase in deposits received from non-bank financial corporations, only a few continue to see this trend.

When assessing the trends in different indicators, however, it should be noted that several of them did not change significantly during the period under review.

1.5 Financial infrastructures and other risks

In 2014, banks resumed payment of contributions to the Deposit Protection Fund (DPF), with the rate set at 0.2% of the amount of deposits under guarantee. Therefore the proportion of guaranteed deposits covered by the DPF's funds increased further, up to 0.6%. Also growing is the government financial assets account, which receives funds collected from the special levy on financial institutions. Within the near term, the funds accumulated are expected to exceed the €0.5 billion threshold at which the amount of the levy will be reduced to 0.2% per year.

The first quarter saw Slovakia complete its migration to SEPA payment instruments. After some teething problems with the new system were resolved, SEPA payments are functioning well.

2 Decisions in the area of macroprudential policy

2.1 Decisions taken by NBS in the quarter under review

Having regard to developments in the principal indicators of excessive credit growth and leverage (Table 1) and in the Cyclogram (Chart 3), the Bank Board of Národná banka Slovenska decided to set the countercyclical capital buffer rate at 0%[3].

2.2 NBS Recommendations currently in force

On 7 October 2014, the NBS Bank Board approved Recommendation No 1/2014 of Národná banka Slovenska of 7 October 2014 in the area of macroprudential policy on risks related to market developments in retail lending[4]. The central bank issued the Recommendation in response to developments in the retail loan market, after having repeatedly drawn attention to several risks in this market. The Recommendation introduces several principles, mainly in regard to:

- **loan-to-value (LTV) ratios**: maximum LTV ratio limits are laid down and banks are advised how to improve the process of determining and monitoring the value of real estate accepted as collateral for a loan;
- **the repayment capacity of borrowers:** banks are recommended to focus on repayment capacity when providing retail loans, mainly by monitoring and independently verifying customers' income and comparing their income and expenditure;
- **sensitivity to interest rate increases:** banks should verify the repayment capacity of customers under the scenario of an increase in interest rates;
- **loan maturities**: maximum loan maturity periods are set for housing and consumer loans;
- **deferred instalments:** banks are recommended to curb the provision of loans in which monthly instalments are gradually increased over time;
- **loan refinancing:** where the refinancing of loans involves a significant increase in the total outstanding principal, greater attention should be paid to customers' repayment ability and to the value of real estate pledged as collateral;
- **financial intermediaries:** banks should take a prudential approach to cooperation with external financial intermediaries, having particular regard to the differences between their own interests and those of the intermediaries.

2.3 Potential application of macroprudential policy instruments over the medium-term horizon

NBS has an obligation to identify global and other systemically important institutions in Slovakia, laid down by Article 131 of Directive 2013/36/EU on access to the activity of credit

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[3] Further details can be found on the NBS website, at http://www.nbs.sk/en/financial-market-supervision/macroprudential-policy/current-status-of-macroprudential-instruments/current-setting-of-capital-buffers-in-slovakia

[4] Further details can be found on the NBS website, at http://www.nbs.sk/en/financial-market-supervision/macroprudential-policy/current-status-of-macroprudential-instruments/current-setting-of-other-instruments-applicable-in-slovakia

institutions and the prudential supervision of credit institutions and investment firms (the CRD IV Directive). Owing to its small size, however, the Slovak banking sector does not include any global systemically important institutions (G-SIIs). Under Article 162(5) of the CRD IV Directive, other systemically important institutions (O-SIIs) may be required to maintain additional capital – an O-SII buffer – as from 1 January 2016. NBS is therefore in the process of identifying domestic systemically important institutions and has so far identified three to five banks that could be so classified.

Under Article 133(1) of the CRD IV Directive, and following the Directive's implementation in Slovak law as of 1 August 2014, Národná banka Slovenska may apply a systemic risk buffer for systemically important institutions in order to mitigate such risk. NBS is currently considering this option.

The risk-weight for exposures secured on commercial immovable property may be increased, under Article 124(2) of Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms (the CRR Regulation). Until the end of 2013 this risk-weight was set at 100% for banks using the standardised approach to credit risk, and after the CRR Regulation entered into force it was reduced to 50%. This level, however, is not sufficiently capturing the risk exposure of the sector, and therefore NBS is considering raising the risk-weight to between 80% and 100%.

The Bank Board of Národná banka Slovenska approved on 7 October 2014 Recommendation No 1/2014 of NBS in the area of macroprudential policy (see part 2.2 for details). If the adoption of the Recommendations does not result in mitigation of the stated risks in the retail loan market, NBS will consider whether to apply legislative instruments.

2.4 ECB decisions concerning the Slovak banking sector taken in the quarter under review

As at October 2014 the European Central Bank had not issued any decisions in the area of macroprudential policy, since it does not assume the authority to issue such decisions until November 2014.

Table 1 Current setting of instruments applicable in Slovakia

Macroprudential instrument	Q2 2014	Q3 2014	Q4 2014	Note
Macroprudential instruments applicable in Slovakia				
Capital conservation buffer (Article 33b of the Banking Act)	0%	1.5%*	2.5%	
Countercyclical capital buffer rate (Article 33g of the Banking Act)	0%	0%	0%	
O-SII buffer (Article 33d of the Banking Act)	0%	0%	0%	Due to be activated from 1 January 2016
Systemic risk buffer (Article 33e of the Banking Act)	0%	0%	0%	
Risk-weight for exposures fully secured by mortgages for residential property (Article 124 of the CRR Regulation)	35%	35%	35%	
Risk-weight for exposures fully secured by mortgages on commercial immovable property (Article 124 of the CRR Regulation)	50%	50%	50%	Increase planned
Minimum exposure-weighted average LGD for all retail exposures secured by residential property and not benefiting from guarantees from central governments (Article 164 of the CRR Regulation)	10%	10%	10%	
Minimum exposure-weighted average LGD for all retail exposures secured by commercial immovable property and not benefiting from guarantees from central governments (Article 164 of the CRR Regulation)	15%	15%	15%	
Risk-weight for exposures fully secured by mortgages on commercial immovable property - other EU Member States (Article 124 of the CRR Regulation)	50%	50%	50%	
Minimum exposure-weighted average LGD for all retail exposures secured by residential property and not benefiting from guarantees from central governments - other EU Member States (Article 164 of the CRR Regulation)	10%	10%	10%	
Minimum exposure-weighted average LGD for all retail exposures secured by commercial immovable property and not benefiting from guarantees from central governments - other EU Member States (Article 164 of the CRR Regulation)	15%	15%	15%	

* Rate applicable from 1 August 2014 to 30 September 2014.

Table 2 Current setting of instruments applicable to foreign exposures

Macroprudential instrument	Q2 2014	Q3 2014	Q4 2014	Note
Macroprudential instruments applicable abroad				
Countercyclical capital buffer rate for Sweden (Article 33h of the Banking Act)	0%	0%	0%	To be increased to 1.0% as from 15 September 2015
Countercyclical capital buffer rate for other EU Member States (Article 33h of the Banking Act)	0%	0%	0%	
Countercyclical capital buffer rate for Norway (Article 33h of the Banking Act)	0%	0%	0%	To be increased to 1.0% as from 30 June 2015
Countercyclical capital buffer rate for countries other than EU Member States (Article 33i and Article 33j of the Banking Act)	0%	0%	0%	
Systemic risk buffer for other EU Member States (Article 33f of the Banking Act)	0%	0%	0%	
Risk-weight for exposures fully secured by mortgages on residential property - other EU Member States (Article 124 of the CRR Regulation)	35%	35%	35%	
Risk-weight for exposures fully secured by mortgages on commercial immovable property - other EU Member States (Article 124 of the CRR Regulation)	50%	50%	50%	
Minimum exposure-weighted average LGD for all retail exposures secured by residential property and not benefiting from guarantees from central governments - other EU Member States (Article 164 of the CRR Regulation)	10%	10%	10%	
Minimum exposure-weighted average LGD for all retail exposures secured by commercial immovable property and not benefiting from guarantees from central governments - other EU Member States (Article 164 of the CRR Regulation)	15%	15%	15%	

Annexes

A Selected indicators broken down by main risk categories

Table 3 Excessive credit growth and leverage

	12.03	3.04	6.04	9.04	12.04	3.05	6.05	9.05	12.05	3.06	6.06	9.06	12.06	3.07	6.07	9.07	12.07	3.08	6.08	9.08	12.08
Total private debt																					
Total Credit-to-trend_GDP gap	0%	0%	0%	0%	1%	0%	0%	0%	-1%	4%	4%	1%	-3%	2%	2%	1%	1%	-1%	0%	0%	-2%
Private debt: year-on-year increase					15%	20%	18%	17%	13%	30%	32%	28%	22%	17%	13%	19%	27%	17%	19%	18%	15%
- Households					38%	39%	41%	42%	41%	40%	38%	34%	32%	30%	28%	27%	28%	28%	28%	27%	24%
- Enterprises					10%	15%	12%	10%	5%	26%	31%	26%	18%	12%	8%	16%	27%	13%	15%	15%	11%
Debt to GDP: level	47%	45%	47%	47%	49%	49%	50%	51%	51%	58%	61%	59%	55%	60%	61%	62%	63%	63%	65%	66%	67%
- Households	9%	9%	9%	10%	11%	11%	12%	13%	14%	14%	15%	16%	16%	16%	17%	18%	19%	19%	20%	20%	21%
- Enterprises	39%	37%	39%	38%	39%	38%	39%	38%	38%	44%	46%	44%	40%	44%	45%	45%	45%	45%	46%	47%	47%
Domestic credit																					
Credit-to-trend_GDP gap	0%	1%	0%	0%	-1%	0%	1%	1%	1%	1%	2%	1%	2%	1%	2%	2%	2%	2%	2%	2%	1%
Loans: year-on-year increase	12%	17%	19%	16%	10%	11%	16%	21%	28%	27%	26%	23%	25%	23%	23%	25%	24%	26%	24%	23%	18%
- Households	37%	41%	44%	42%	38%	39%	41%	42%	41%	40%	38%	34%	32%	30%	28%	27%	28%	28%	28%	28%	25%
- Enterprises	4%	10%	11%	6%	-1%	-1%	4%	11%	21%	19%	20%	15%	20%	18%	19%	24%	22%	24%	21%	20%	13%
Credit to GDP: level	26%	26%	25%	26%	26%	27%	27%	27%	26%	27%	28%	30%	31%	31%	33%	33%	34%	34%	36%	37%	38%
- Households	8%	8%	8%	9%	9%	10%	11%	12%	12%	13%	13%	14%	14%	15%	15%	16%	16%	17%	18%	18%	19%
- Enterprises	19%	19%	19%	18%	17%	17%	18%	18%	18%	19%	19%	19%	20%	20%	20%	21%	22%	22%	22%	22%	22%
Households sector																					
Domestic credit to disposable income: gap	0%	0%	0%	0%	0%	0%	0%	1%	1%	0%	1%	1%	1%	0%	0%	0%	0%	0%	1%	1%	0%
Domestic credit to disposable income: level	13%	13%	14%	15%	16%	17%	18%	19%	21%	21%	23%	24%	25%	25%	26%	27%	28%	29%	31%	32%	32%
Domestic credit to disposable income: year-on-year increase	30%	31%	32%	29%	25%	27%	29%	31%	29%	28%	25%	22%	21%	19%	17%	15%	14%	15%	17%	17%	14%
LTV on new housing loans		69%	69%	70%	71%	74%	75%	76%	78%	80%	82%	84%	87%	88%	90%	90%	91%	91%	90%	84%	70%
Housing affordability index						129	136	139	137	135	131	125	121	118	116	108	102	98	94	94	97
Corporate sector																					
Total debt to revenues trend: gap	0%	0%	0%	0%	0%	0%	0%	0%	0%	2%	2%	0%	-1%	0%	0%	0%	0%	0%	0%	0%	-1%
Domestic credit to revenues trend: gap	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	1%	1%	1%	1%	0%	0%

	3.09	6.09	9.09	12.09	3.10	6.10	9.10	12.10	3.11	6.11	9.11	12.11	3.12	6.12	9.12	12.12	3.13	6.13	9.13	12.13	3.14	6.14
Total private debt																						
Total Credit-to-trend_GDP gap	-1%	-3%	-4%	-7%	-8%	-8%	-7%	-8%	-7%	-7%	-6%	-6%	-7%	-7%	-6%	-6%	-8%	-7%	-6%	-4%	-4%	-4%
Private debt: year-on-year increase	18%	10%	7%	3%	-2%	-1%	0%	2%	5%	6%	6%	7%	6%	4%	4%	4%	2%	2%	4%	6%	10%	10%
- Households	20%	16%	12%	9%	10%	9%	10%	11%	12%	11%	11%	10%	9%	8%	8%	9%	8%	8%	9%	9%	10%	10%
- Enterprises	17%	8%	5%	0%	-7%	-6%	-5%	-2%	1%	4%	3%	6%	4%	2%	2%	1%	-2%	-2%	1%	5%	10%	10%
Debt to GDP: level	71%	72%	74%	73%	72%	72%	72%	71%	72%	73%	73%	73%	73%	73%	73%	74%	72%	73%	75%	77%	78%	79%
- Households	22%	23%	24%	24%	25%	25%	26%	26%	26%	27%	27%	27%	27%	28%	28%	29%	29%	29%	30%	31%	31%	32%
- Enterprises	51%	51%	52%	50%	50%	49%	49%	47%	48%	48%	49%	48%	48%	47%	48%	47%	46%	45%	49%	49%	50%	52%
Domestic credit																						
Credit-to-trend_GDP gap	0%	-1%	-2%	-3%	-3%	-4%	-3%	-4%	-3%	-3%	-2%	-3%	-4%	-4%	-4%	-4%	-5%	-5%	-4%	-4%	-4%	-4%
Loans: year-on-year increase	15%	9%	6%	3%	2%	3%	4%	6%	7%	10%	9%	9%	7%	3%	2%	3%	3%	4%	4%	4%	6%	6%
- Households	22%	17%	13%	11%	10%	10%	11%	12%	12%	12%	11%	10%	9%	8%	9%	9%	9%	9%	9%	9%	10%	11%
- Enterprises	10%	3%	0%	-3%	-4%	-3%	-1%	0%	3%	8%	8%	7%	4%	-2%	-5%	-3%	-4%	-3%	-2%	-3%	0%	0%
Credit to GDP: level	39%	40%	41%	41%	43%	44%	45%	45%	46%	46%	46%	46%	46%	48%	48%	48%	47%	47%	47%	47%	47%	48%
- Households	20%	21%	22%	22%	23%	23%	23%	24%	24%	24%	25%	25%	25%	25%	26%	26%	27%	27%	28%	28%	29%	30%
- Enterprises	23%	23%	23%	23%	23%	23%	23%	22%	23%	23%	23%	23%	22%	22%	21%	21%	21%	21%	21%	20%	20%	20%
Households sector																						
Domestic credit to disposable income: gap	0%	0%	0%	-1%	-1%	-1%	-1%	-1%	-2%	-1%	-1%	-1%	-2%	-2%	-1%	-1%	-2%	-2%	-1%	-1%	-1%	-1%
Domestic credit to disposable income: level	33%	34%	35%	35%	36%	36%	37%	38%	38%	39%	40%	41%	41%	42%	43%	43%	44%	45%	46%	47%	47%	48%
Domestic credit to disposable income: year-on-year increase	12%	9%	9%	9%	9%	8%	7%	7%	7%	7%	7%	8%	7%	7%	7%	7%	8%	7%	7%	7%	8%	8%
LTV on new housing loans	65%	65%	65%	65%	66%	67%	68%	69%	70%	69%	71%	69%	74%	74%	71%	72%	72%	71%	73%	72%	74%	72%
Housing affordability index	108	115	120	126	129	131	132	139	139	141	141	141	146	144	149	145	153	156	170	167	168	179
Corporate sector																						
Total debt to revenues trend: gap	0%	-1%	-1%	-1%	-2%	-2%	-1%	-2%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-2%	-2%	-1%	-1%	0%	-1%
Domestic credit to revenues trend: gap	0%	0%	0%	-1%	0%	-1%	0%	-1%	0%	0%	0%	0%	0%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%

Gap: deviation of the respective indicator from its long-term trend

Credit-to-GDP gap: deviation of private debt to GDP ratio from its long-term trend

Table 4 Excessive maturity mismatch and market illiquidity

	3.06	6.06	9.06	12.06	3.07	6.07	9.07	12.07	3.08	6.08	9.08	12.08	3.09	6.09	9.09	12.09
Cummulative liquidity gap of up to 7 days	-28%	-23%	-26%	-28%	-27%	-28%	-28%	-33%	-29%	-27%	-30%	-23%	-29%	-31%	-30%	-32%
Cummulative liquidity gap of up to 30 days	-24%	-26%	-27%	-31%	-26%	-31%	-30%	-32%	-30%	-30%	-30%	-23%	-32%	-35%	-34%	-34%
Cummulative liquidity gap of up to 1 year	-28%	-27%	-30%	-31%	-28%	-28%	-29%	-29%	-30%	-28%	-28%	-28%	-35%	-36%	-38%	-39%
Cummulative liquidity gap of up to 2 years	-23%	-22%	-24%	-25%	-24%	-23%	-24%	-24%	-25%	-23%	-24%	-24%	-30%	-30%	-30%	-31%
Pledged securities / Total securities									4%	5%	7%	21%	15%	25%	24%	27%
Bonds maturing in following 12 months	4%	5%	5%	10%	13%	13%	7%	14%	20%	22%	22%	12%	15%	16%	22%	28%
Net foreign position (excluding foreign capital*)	-16%	-14%	-7%	-8%	-12%	-11%	-11%	-12%	-12%	-13%	-13%	-14%	5%	6%	5%	2%

	3.10	6.10	9.10	12.10	3.11	6.11	9.11	12.11	3.12	6.12	9.12	12.12	3.13	6.13	9.13	12.13	3.14	6.14
Cummulative liquidity gap of up to 7 days	-36%	-36%	-36%	-36%	-34%	-35%	-32%	-33%	-29%	-30%	-31%	-32%	-31%	-34%	-36%	-36%	-36%	-38%
Cummulative liquidity gap of up to 30 days	-37%	-39%	-40%	-39%	-38%	-38%	-37%	-35%	-32%	-32%	-33%	-33%	-33%	-36%	-38%	-38%	-38%	-40%
Cummulative liquidity gap of up to 1 year	-40%	-37%	-37%	-38%	-39%	-39%	-40%	-40%	-36%	-36%	-39%	-37%	-40%	-41%	-43%	-43%	-45%	-45%
Cummulative liquidity gap of up to 2 years	-34%	-33%	-33%	-34%	-35%	-37%	-37%	-35%	-32%	-32%	-34%	-33%	-36%	-38%	-40%	-40%	-40%	-41%
Pledged securities / Total securities	26%	26%	15%	17%	17%	17%	17%	28%	24%	22%	22%	25%	16%	15%	13%	11%	11%	11%
Bonds maturing in following 12 months	30%	22%	16%	14%	19%	14%	14%	12%	17%	14%	15%	15%	14%	11%	9%	14%	14%	20%
Net foreign position (excluding foreign capital*)	3%	2%	0%	2%	2%	1%	0%	2%	2%	4%	3%	5%	4%	2%	3%	4%	3%	4%

*Capital: Own funds of foreign banks´ subsidiaries

Table 5 Concentration

	3.06	6.06	9.06	12.06	3.07	6.07	9.07	12.07	3.08	6.08	9.08	12.08	3.09	6.09	9.09	12.09
Share of total large exposures to own funds									179%	168%	155%	163%	146%	121%	111%	110%
Share of exposures to the Slovak Republic to total assets	16%	16%	16%	19%	14%	18%	18%	18%	17%	15%	14%	14%	18%	19%	21%	21%
Assets to own financial group to total assets	0%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	2%	3%	5%	6%	4%
Liabilities from own financial group to total assets	7%	7%	4%	5%	9%	8%	8%	10%	9%	13%	12%	10%	4%	4%	4%	4%
Real value of assets revalued against profit and loss	4%	6%	5%	10%	10%	12%	11%	10%	12%	10%	9%	10%	5%	5%	5%	5%
Real value of liabilities revalued against profit and loss	7%	7%	5%	6%	7%	7%	6%	6%	6%	5%	6%	6%	3%	3%	3%	2%
Share of derivatives (nominal value) to total assets	110%	131%	126%	113%	114%	110%	107%	105%	111%	108%	112%	69%	48%	46%	43%	42%
Exposures to countries with high or increasing spread* to own funds																
Greece													0%	0%	0%	0%
Portugal													2%	2%	1%	2%
Loans provided to corporate segments with increased or increasing NPL ratio ** to total assets																
Construction	1%	1%	1%	2%	1%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Commercial real estate	2%	2%	3%	3%	3%	4%	4%	4%	4%	4%	4%	5%	6%	6%	6%	6%
Wholesale and retail	4%	4%	5%	5%	5%	5%	5%	6%	6%	6%	6%	6%	7%	6%	6%	6%
Industry	6%	6%	6%	6%	7%	7%	7%	6%	7%	7%	6%	6%	7%	7%	6%	6%

	3.10	6.10	9.10	12.10	3.11	6.11	9.11	12.11	3.12	6.12	9.12	12.12	3.13	6.13	9.13	12.13	3.14	6.14
Share of total large exposures to own funds	111%	101%	99%	110%	110%	135%	139%	118%	90%	95%	100%	108%	109%	106%	94%	100%	105%	150%
Share of exposures to the Slovak Republic to total assets	22%	23%	23%	21%	21%	20%	20%	20%	20%	21%	21%	20%	20%	21%	20%	18%	18%	18%
Assets to own financial group to total assets	3%	4%	5%	5%	6%	6%	5%	4%	5%	6%	6%	6%	5%	5%	5%	5%	4%	5%
Liabilities from own financial group to total assets	4%	4%	7%	5%	6%	6%	6%	4%	2%	2%	2%	1%	2%	3%	3%	3%	3%	4%
Real value of assets revalued against profit and loss	5%	5%	5%	4%	4%	4%	4%	3%	4%	3%	4%	2%	2%	2%	2%	2%	2%	1%
Real value of liabilities revalued against profit and loss	3%	3%	2%	2%	2%	2%	2%	1%	2%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Share of derivatives (nominal value) to total assets	40%	40%	38%	37%	39%	41%	38%	37%	37%	36%	34%	31%	34%	35%	34%	31%	31%	33%
Exposures to countries with high or increasing spread* to own funds																		
Greece	15%	15%	15%	14%	13%	12%	11%	10%	3%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Portugal	1%	1%	1%	1%	1%	1%	1%	1%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Loans provided to corporate segments with increased or increasing NPL ratio ** to total assets																		
Construction	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Commercial real estate	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%	5%	6%	6%	6%	6%	5%	5%	5%
Wholesale and retail	6%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Industry	6%	6%	6%	5%	5%	6%	5%	6%	5%	5%	5%	5%	5%	5%	4%	4%	4%	4%

*Annual increase of spread by more than 2 p.p. or spread exceeding 4 p.p. Spread is calculated as a differance between yields of goverment bonds of respective country and yields of German goverment bonds

** Annual increase of NPL ratio by more than 1 p.p. or level of NPL ratio exceeding 10%

Table 6 Moral hazard

		3.04	6.04	9.04	12.04	3.05	6.05	9.05	12.05	3.06	6.06	9.06	12.06	3.07	6.07	9.07	12.07	3.08	6.08	9.08	12.08
Total net assets	C5	65%	66%	66%	66%	67%	67%	67%	68%	66%	67%	65%	67%	66%	68%	68%	68%	67%	67%	68%	72%
	HHI	1,164	1,178	1,136	1,147	1,104	1,121	1,094	1,071	1,037	1,110	1,096	1,127	1,065	1,086	1,075	1,085	1,086	1,083	1,090	1,197
Guaranteed deposits	C5	77%	76%	75%	75%	75%	75%	75%	75%	76%	76%	76%	76%	76%	75%	75%	75%	74%	74%	74%	76%
	HHI	1,803	1,710	1,684	1,671	1,658	1,644	1,625	1,593	1,622	1,614	1,612	1,594	1,597	1,579	1,582	1,573	1,576	1,571	1,512	1,605
Investments to domestic goverment bonds	C5	81%	81%	81%	82%	79%	80%	83%	83%	80%	82%	81%	81%	82%	85%	85%	84%	82%	81%	81%	82%
	HHI	2,088	2,038	2,043	2,065	1,936	2,052	2,368	2,377	2,050	2,195	2,193	2,175	2,309	2,366	2,404	2,306	2,071	2,026	1,913	1,701
Loans provided to retail sector (outstanding amount)	C5	81%	81%	81%	81%	81%	81%	81%	81%	81%	81%	81%	81%	81%	81%	82%	82%	82%	82%	82%	82%
	HHI	1,720	1,676	1,664	1,640	1,625	1,621	1,622	1,606	1,605	1,601	1,589	1,584	1,593	1,599	1,595	1,587	1,606	1,613	1,619	1,611
Total assets within financial system	C5	67%	67%	64%	64%	63%	61%	63%	66%	62%	70%	67%	65%	62%	67%	65%	68%	62%	69%	62%	61%
	HHI	1,128	1,125	1,196	1,009	1,048	1,008	1,022	1,060	954	1,204	1,063	1,035	984	1,091	1,005	1,076	982	1,095	960	910
Total liabilities within financial system	C5	62%	67%	62%	63%	66%	68%	67%	67%	67%	69%	63%	61%	64%	70%	66%	65%	67%	66%	69%	71%
	HHI	999	1,046	986	1,025	1,107	1,176	1,113	1,194	1,125	1,137	996	965	1,049	1,188	1,124	1,056	1,090	1,060	1,097	1,149

		3.09	6.09	9.09	12.09	3.10	6.10	9.10	12.10	3.11	6.11	9.11	12.11	3.12	6.12	9.12	12.12	3.13	6.13	9.13	12.13	3.14	6.14
Total net assets	C5	69%	70%	72%	72%	72%	73%	72%	72%	71%	71%	71%	72%	71%	72%	72%	71%	71%	71%	71%	70%	70%	70%
	HHI	1,187	1,214	1,266	1,273	1,265	1,275	1,252	1,237	1,220	1,221	1,220	1,254	1,222	1,250	1,254	1,221	1,220	1,213	1,223	1,214	1,205	1,218
Guaranteed deposits	C5	76%	76%	78%	77%	76%	76%	75%	75%	75%	75%	75%	73%	73%	73%	73%	73%	73%	73%	73%	70%	70%	70%
	HHI	1,575	1,571	1,590	1,536	1,517	1,513	1,508	1,478	1,458	1,454	1,458	1,389	1,359	1,383	1,386	1,371	1,361	1,360	1,354	1,284	1,276	1,278
Investments to domestic goverment bonds	C5	85%	87%	89%	87%	87%	87%	87%	87%	85%	84%	85%	83%	83%	83%	84%	84%	84%	83%	85%	86%	85%	86%
	HHI	1,920	1,891	1,924	1,909	1,805	1,808	1,844	1,839	1,789	1,746	1,766	1,777	1,734	1,827	1,848	1,797	1,824	1,689	1,771	1,788	1,764	1,832
Loans provided to retail sector (outstanding amount)	C5	82%	83%	85%	85%	85%	85%	85%	84%	84%	84%	84%	84%	84%	83%	83%	83%	83%	82%	81%	80%	80%	80%
	HHI	1,618	1,638	1,678	1,683	1,698	1,698	1,694	1,682	1,665	1,659	1,661	1,672	1,672	1,659	1,643	1,644	1,641	1,610	1,577	1,559	1,558	1,568
Total assets within financial system	C5	62%	61%	62%	62%	63%	60%	59%	62%	62%	57%	59%	57%	55%	56%	55%	49%	48%	49%	52%	55%	53%	55%
	HHI	945	1,032	1,050	1,135	1,168	1,034	942	1,077	1,027	905	882	914	853	905	882	750	783	857	980	987	1,038	961
Total liabilities within financial system	C5	65%	66%	74%	74%	77%	75%	74%	74%	78%	78%	79%	81%	82%	84%	86%	86%	87%	86%	84%	84%	82%	83%
	HHI	1,053	1,075	1,259	1,316	1,331	1,266	1,373	1,375	1,448	1,395	1,409	1,537	1,550	1,644	1,688	1,656	1,654	1,627	1,596	1,605	1,508	1,534

C5: Share of 5 institutions with the highest volume of respective item on the total volume of that item in banking sector in a respective quarter

HHI: Herfindahl-Hirschmanov index

Table 7 Financial infrastructures

	3.10	6.10	9.10	12.10	3.11	6.11	9.11	12.11	3.12	6.12	9.12	12.12	3.13	6.13	9.13	12.13	3.14	6.14
Coverage of guaranteed deposits	0.1%	0.2%	0.2%	0.3%	0.3%	0.4%	0.4%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.6%	0.6%
Volume of assets from bank levy to total assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%	0.3%	0.3%	0.4%	0.5%	0.6%	0.7%	0.8%
Change in the Slovak Republic Target 2 balance (EUR mil.)	54	-572	587	1,140	1,529	-2,350	3,128	-2,617	5,574	2,779	3,718	2,439	3,923	2,527	-395	-4,256	3,800	-3,699
The Slovak Republic Target 2 balance to NBS assets	-71%	-73%	-71%	-74%	-67%	-63%	-72%	-55%	-63%	-39%	-27%	-8%	5%	23%	33%	32%	16%	30%

Share of volume accumulated in Deposit Guarantee Fund to total volume of guaranteed deposits in a respective quarter

Share of volume accumulated from bank levy from selected financial instituions in accordance with Act No 384/2011 Coll. to total net assets of banking sector in a respective quarter

Table 8 Resilience of the financial system

	12.03	3.04	6.04	9.04	12.04	3.05	6.05	9.05	12.05	3.06	6.06	9.06	12.06	3.07	6.07	9.07	12.07	3.08	6.08	9.08	12.08
Tier 1 capital ratio						21%	22%	21%	19%	18%	18%	16%	15%	15%	14%	14%	13%	13%	13%	13%	12%
Capital adequacy ratio		22%	22%	21%	19%	18%	17%	16%	15%	14%	14%	14%	13%	13%	13%	13%	12%	11%	12%	11%	11%
Liquid asset ratio																					1.46
Loan to deposit ratio	55%	56%	55%	54%	57%	56%	58%	63%	66%	66%	68%	68%	72%	73%	71%	74%	77%	83%	84%	85%	78%

	3.09	6.09	9.09	12.09	3.10	6.10	9.10	12.10	3.11	6.11	9.11	12.11	3.12	6.12	9.12	12.12	3.13	6.13	9.13	12.13	3.14	6.14
Tier 1 capital ratio	12%	12%	11%	11%	11%	12%	12%	12%	12%	13%	13%	12%	12%	12%	13%	13%	15%	15%	15%	15%	16%	16%
Capital adequacy ratio	11%	12%	12%	12%	12%	13%	13%	13%	12%	13%	13%	13%	15%	16%	16%	16%	16%	16%	17%	17%	17%	17%
Liquid asset ratio	1.40	1.32	1.30	1.31	1.39	1.35	1.39	1.37	1.36	1.35	1.36	1.36	1.51	1.47	1.47	1.51	1.50	1.46	1.42	1.42	1.44	1.36
Loan to deposit ratio	83%	83%	84%	85%	86%	83%	87%	85%	86%	87%	88%	90%	89%	89%	90%	88%	87%	88%	89%	89%	89%	90%

B Countercyclical capital buffer

Deviation of the credit-to-GDP ratio from its long-term trend[5]

Chart 1 Credit-to-GDP

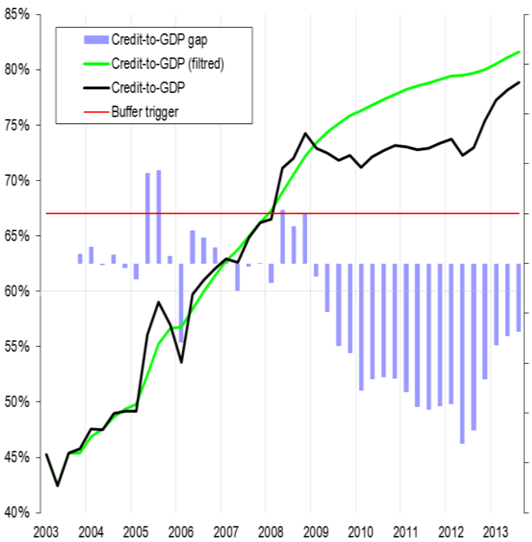
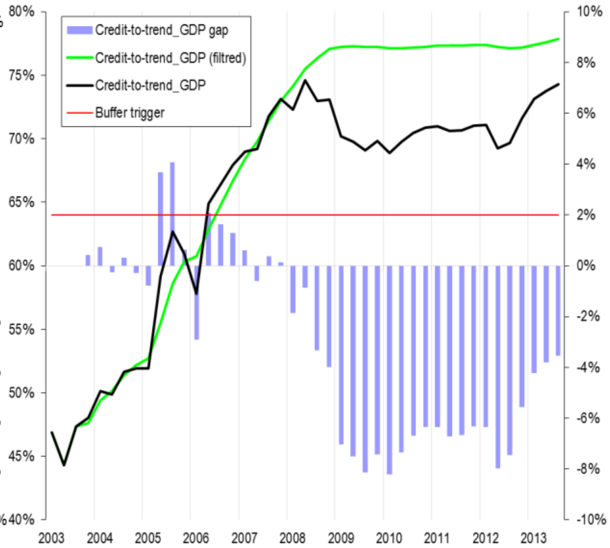


Chart 2 Credit-to-trend GDP

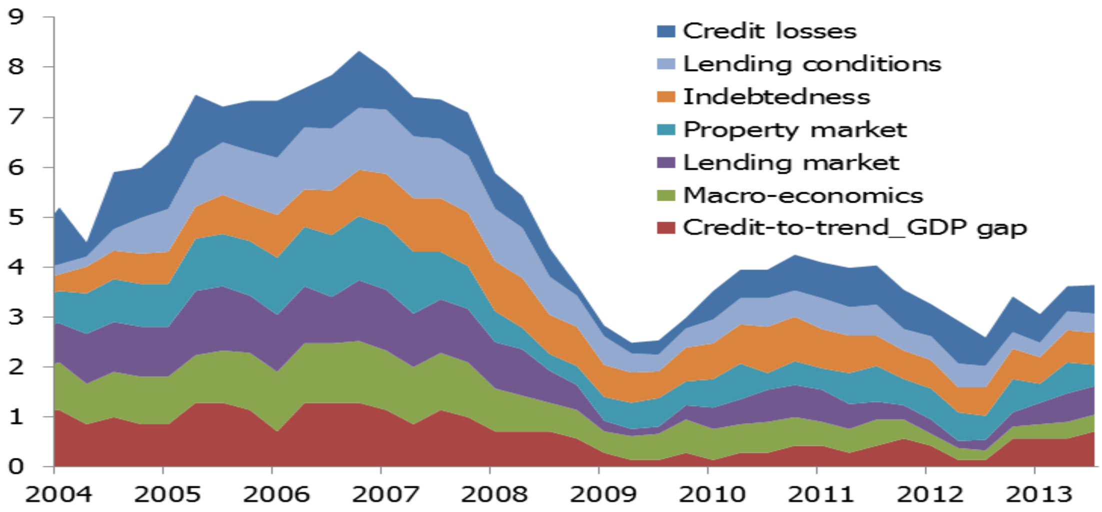


Countercyclical capital buffer trigger and gap values are shown on the right hand scale.
Source: NBS, Statistical Office of the SR.

Benchmarks for the countercyclical capital buffer[6]

Basis of benchmark	Benchmark rate as at 30 June 2014
Credit-to-GDP gap	0%
Credit-to-trend GDP gap	0%

Chart 33 Cyclogram[7]



Source: NBS, Statistical Office of the SR.

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[5] Ratio pursuant to Article 33g(2)(a) of the Banking Act.
[6] Obligation laid down in Article 33g(2) of the Banking Act; calculation made in accordance with Recommendation of the ESRB No ESRB/2014/1 of 18 June 2014 on guidance for setting countercyclical buffer rates.
[7] Pursuant to Article 33g(1c) of the Banking Act.